

STATE OF MICHIGAN
BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

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In the matter of the application of)	
SEMCO ENERGY, INC.,)	
for authority to implement its amended energy)	Case No. U-18179
optimization plan for the 24-month period of)	
January 2016 through December 2017.)	
_____)	

At the December 20, 2016 meeting of the Michigan Public Service Commission in Lansing,
Michigan.

PRESENT: Hon. Sally A. Talberg, Chairman
Hon. Norman J. Saari, Commissioner
Hon. Rachael A. Eubanks, Commissioner

ORDER APPROVING SETTLEMENT AGREEMENT

On September 23, 2016, SEMCO Energy Gas Company (SEMCO) filed an application, with supporting testimony and exhibits, requesting approval of an amended energy optimization plan (EOP). A prehearing conference was held on November 10, 2016, before Administrative Law Judge Sharon L. Feldman. SEMCO and the Commission Staff (Staff) appeared. Subsequently the parties filed a settlement agreement resolving all issues in the proceeding.

According to the terms of the settlement agreement, attached as Exhibit A, the parties agree that SEMCO's proposed amended EOP and related surcharges, set forth in Attachment 1 to the settlement agreement, are reasonable and consistent with the requirements of 2008 PA 295 (Act 295). The parties further agree that SEMCO's performance incentive mechanism target for 2017, as set forth in Attachment 3 to the settlement agreement, is reasonable and in compliance

with Act 295, and that any performance incentive awarded after an EOP reconciliation shall be separate from actual program costs.

The parties agree that although SEMCO's EOP focuses on long-life energy optimization measures, the company will report first-year energy savings to the Staff, and that SEMCO will report energy savings in accordance with the formula set forth in Attachment 2 to the settlement agreement. The parties further agree that SEMCO will keep its spending target for low-income customers to \$378,721, and that amount will not be reduced as a reflection of the overall budget. *See*, Attachment 3 to the settlement agreement.

Finally, the parties agree that SEMCO will conduct a high efficiency appliance pilot program, using carried-over funds, to assess the efficacy and cost savings of natural gas space and water heaters. The results of the pilot, including energy and cost savings shall be submitted at the end of the pilot.

The Commission finds that the settlement agreement is reasonable and prudent and in compliance with the requirements of Act 295. The Commission finds the settlement should be approved.

THEREFORE, IT IS ORDERED that:

- A. The settlement agreement, attached as Exhibit A, is approved.
- B. The tariff sheets, attached as Attachment 1 to the settlement agreement, are approved for bills rendered on and after January 1, 2017.
- C. Within 10 days of the date of this order, SEMCO Energy Gas Company shall file tariff sheets substantially similar to those contained in Attachment 1 to the settlement agreement.

The Commission reserves jurisdiction and may issue further orders as necessary.

Any party desiring to appeal this order must do so in the appropriate court within 30 days after issuance and notice of this order, pursuant to MCL 462.26. To comply with the Michigan Rules of Court's requirement to notify the Commission of an appeal, appellants shall send required notices to both the Commission's Executive Secretary and to the Commission's Legal Counsel.

Electronic notifications should be sent to the Executive Secretary at mpscedockets@michigan.gov and to the Michigan Department of the Attorney General - Public Service Division at pungp1@michigan.gov. In lieu of electronic submissions, paper copies of such notifications may be sent to the Executive Secretary and the Attorney General - Public Service Division at 7109 W. Saginaw Hwy., Lansing, MI 48917.

MICHIGAN PUBLIC SERVICE COMMISSION

Sally A. Talberg, Chairman

Norman J. Saari, Commissioner

Rachael A. Eubanks, Commissioner

By its action of December 20, 2016.

Kavita Kale, Executive Secretary

STATE OF MICHIGAN

BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

* * * * *

In the matter of the application of)	
SEMCO ENERGY, INC. for authority to)	
implement its Amended Energy Optimization Plan for)	Case No. U-18179
the 24-month period of January 2016 through)	
<u>December 2017.</u>)	

SETTLEMENT AGREEMENT

Pursuant to Section 78 of the Administrative Procedures Act of 1969 as amended (1969 PA 306, §78; MCL 24.278) (the “APA”), and Rule 333 of the Rules of the Practice and Procedure Before the Commission, R 460.17333, SEMCO Energy Gas Company, a division of SEMCO Energy, Inc. (the “Company”), and the Michigan Public Service Commission (“Commission”) Staff (“Staff”), hereby agree as follows:

1. On November 14, 2013, the Commission issued an order in Case No. U-17362 approving the Company’s EO plan for the 24-month period of January 2014 through December 2015. On January 13, 2015, the Commission issued an order in Case No. U-17362 allowing the Company to amend its EO Plan.

2. On December 11, 2015, the Commission issued an order in Case No. U-17790 approving the Company’s EO plan for the 24-month period of January 2016 through December 2017. On September 23, 2016, the Company filed with the Commission an Application, along with the testimony and exhibits of its witnesses Jennifer Dennis, James Van Sickle, and George Phillips, seeking approval of an amendment to the Company’s EO Plan. As detailed in the testimony and exhibits, the Company proposed to:

- A. Adjust spending levels for the 2017 period of its EO plan which takes into account actual 2015 sales and revenues, reflecting increased volume but decreased revenue;
- B. Amend the financial incentive mechanism;
- C. Revise volume savings targets;
- D. Reallocate the funding for the Company's THINK! ENERGY program; and
- E. Change the Water Heater Conversion Pilot program.

3. On November 10, 2016, a prehearing conference was held pursuant to the Commission's Notice of Hearing. The prehearing conference was conducted as a contested case matter pursuant to the APA. Staff and the Company participated in the proceedings—there were no intervenors. At the prehearing conference, the Company presented proof of service of the Notice of Hearing on all cities, incorporated villages, townships, and counties in its service area, and all intervenors in Case No. U-17362. The Company also presented an affidavit evidencing the requisite publication of notice and a proof of service evidencing the requisite mailings.

4. The parties have had extensive discussions, and have agreed to enter into this Settlement Agreement recommending approval of the Company's Amended EO Plan. In view of the foregoing, and pursuant to Section 78 of the APA (MCL 24.278), the Company and Staff hereby agree as follows:

- A. The Company's Amended EO Plan, described in the testimony and exhibits filed in this case, and all related surcharges are reasonable, appropriate, in the public interest, and consistent with Public Act 295 of 2008.

B. The Company may begin collection of the surcharges established in the Amended EO Plan for bills rendered on and after January 1, 2017.

C. Proposed tariff sheets are attached as Attachment 1 to this Settlement Agreement.

D. The Company's Incentive Mechanism and Performance Incentive Energy Savings Target for EO Plan year 2017 as described in Company witness Jennifer Dennis' testimony and exhibits, and modified as agreed upon between Staff and the Company in Attachment 3 to this Settlement Agreement is reasonable and prudent and complies with 2008 PA 295, Sec. 75.

E. If achieved in any year of the Amended EO Plan, the Company may collect the performance incentive beginning with the first billing cycle of the month following a Commission Order that approves the Amended EO Plan year reconciliation and awards a specific financial incentive amount conforming with Attachment 3. In its reconciliation application, the Company will request a rate design and collection period for the requested incentive award. The performance incentive calculated pursuant to Attachment 3 is separate and distinct from the program implementation costs that are subject to the program spending cap and customer class revenues caps delineated in 2008 PA 295 Sec. 89. Thus, collection of the performance incentive will occur as an addition to the EO surcharge levied and collected for EO Plan funding, although for administrative simplicity, the financial incentive awarded may be included in the EO surcharge shown on customers' bills. Collection of the EO financial incentive awards for prior

program years are not dependent upon EO program performance in years subsequent to the year for which the incentive is granted by the Commission.

F. Although Staff and the Company have agreed that the Company's EO Plan focus on long-life measures and have established the Performance Incentive Energy Savings Targets to reflect lifetime savings targets, the parties agree that the Company will report first year energy savings to Staff. Updated from the Company's original EO Plan under Case No. U-17790 to take into account 2015 actual sales volumes, the Company shall report such savings according to the formula on page 2 of Attachment 2.

G. The Company agrees to keep the low-income spend target to \$378,721 based on the forecasted budget that was part of the Company's original EO Plan. Low-income spend will not be reduced as a reflection of the decreased cumulative budget. This spend target is now reflected in Attachment 3 to this Settlement Agreement. In addition, the Company's low-income program will garner stipulated savings in parallel to the percent spend that will apply to the first year and baseline lifetime savings targets. The stipulated savings based on the agreed upon spend target are as reflected in the tables below.

Program Budget	\$5,985,060
Low Income Spend Target	\$378,721
Low Income Percent Spend	6.33%

	Lifetime	First Year
Therms Savings Target	38,226,077	4,624,122
Low Income Percent Spend	6.33%	6.33%
Stipulated Savings	2,419,711	292,707

H. The Company will conduct an alternative high efficiency appliance pilot program to determine the energy savings and economic impact to customers when choosing a natural gas water heater or space heater. The Company will conduct that pilot using carryover funds and may continue into subsequent years to gather enough data to draw conclusions on energy and cost savings. The Company will claim deemed savings from the Michigan Energy Measures database in the pilot and apply those savings toward the energy savings target, but will attempt to calculate actual energy and financial savings which the Company will submit with the pilot findings.

I. In all other respects, the Company's EO Plan, as the Commission approved in its November 14, 2013 and January 13, 2015 Orders, remains unchanged.

6. All the signatories are of the opinion that this Settlement Agreement is reasonable, in the public interest, and will aid in the expeditious conclusion of this case only.

7. The parties respectfully request that the Commission promptly issue an order accepting and approving this Settlement Agreement. If the Commission issues an order accepting and adopting the Settlement Agreement without modification, no party will appeal, challenge, or contest the Commission's Order accepting and approving this Settlement Agreement. If the Commission does not accept and approve this Settlement Agreement without modification, this Settlement Agreement shall be withdrawn and shall not constitute any part of the record in this proceeding or be used for any other purpose whatsoever.

8. This Settlement Agreement has been made for the sole and express purpose of reaching compromise among the positions of the signatory parties in U-18179 without prejudice to their rights to take new and/or different positions in other proceedings. If the Commission approves this settlement agreement without modification, neither the parties to this settlement agreement nor the Commission shall make any reference to or use of the settlement agreement or the order approving it as a reason, authority, rationale, or example for taking any action or position or making any subsequent decision in this case or any other cases or proceedings; provided, however, such reference or use may be made to enforce the settlement agreement and order.

9. The Company and Staff jointly recommend that the Commission issue an Order Adopting Settlement Agreement.

10. The stipulations and agreements contained in this Settlement Agreement shall constitute the record needed to support the Commission order in this case.

11. Section 81 of the APA (MCL 24.281) is waived.

Dated: November 22, 2016

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By: **Heather M.S. Durian**
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SECTION D
GAS SALES SERVICE
SURCHARGES

Energy Optimization Program Clause – This clause permits, pursuant to Section 89(2) of 2008 PA 295, recovery of the actual costs of implementing its approved energy optimization plan. This charge is to be on a volumetric basis for all customers. Special contract customers will be billed in the sales and transportation rate class most appropriate to their volumetric throughput.

Energy Optimization
Surcharge

Rate Class		Amount	Order No.
Residential		\$0.1528 per Dth	U-17790
	<u>Up to 9 Dth per Month</u>	<u>Remaining Dth per Month</u>	
GS-1	\$1.0774 per Dth	\$0.0001 per Dth	U-17790
GS-2	\$1.0774 per Dth	\$0.0001 per Dth	U-17790
GS-3	\$1.0774 per Dth	\$0.0001 per Dth	U-17790

SECTION E
TRANSPORTATION SERVICE
SURCHARGES

Energy Optimization Program Clause – This clause permits, pursuant to Section 89(2) of 2008 PA 295, recovery of the actual costs of implementing its approved energy optimization plan. This charge is to be on a volumetric basis for all customers. Special contract customers will be billed in the sales and transportation rate class most appropriate to their volumetric throughput.

Energy Optimization
Surcharge

<u>Rate Class</u>	<u>Amount</u>	<u>Order No.</u>
	<u>Up to 2500 Dth per Month</u>	<u>Remaining Dth per Month</u>
TR-1	\$0.0585 per Dth	\$0.0001 per Dth U-17790
TR-2	\$0.0585 per Dth	\$0.0001 per Dth U-17790
TR-3	\$0.0585 per Dth	\$0.0001 per Dth U-17790

	2013	2014	2015	2017 Avg 2013-2015 (therms)
Residential	268,420,220	292,244,740	259,065,500	273,243,487
C&I	150,132,040	167,581,110	146,920,960	154,878,037
Transport	181,903,610	186,552,500	196,828,200	188,428,103
Total Avg Sales (therms)	600,455,870	646,378,350	602,814,660	616,549,627
Energy Savings Target				6.2%
Lifetime Energy Savings (therms) @ 100%				38,226,077
Lifetime Energy Savings (therms) @ 120%				45,871,292

	2013	2014	2015	2017 Avg 2013-2015 (therms)
Residential	268,420,220	292,244,740	259,065,500	273,243,487
C&I	150,132,040	167,581,110	146,920,960	154,878,037
Transport	181,903,610	186,552,500	196,828,200	188,428,103
Total Avg Sales (therms)	600,455,870	646,378,350	602,814,660	616,549,627
Energy Savings Target				0.75%
Adjusted First Year Energy Savings (therms)*				4,624,122

*Adjusted First Year Energy Savings are adapted from the Gross First Year Energy Savings by applying the following conditions

GROSS SAVINGS * NET TO GROSS FACTOR * MARKET TRANSFORMATION * VERIFIED GROSS FACTOR * ESTIMATED USEFUL LIFE/10

Net to Gross = 0.9

Market Transformation = varies by measure **

Verified Gross = varies by measure pursuant to previous evaluation cycle

Estimated Useful Life = varies by measure

NOTE: the target savings identified above are consistent between Adjusted and Gross First Year Energy Savings

** The Market Transformation multiplier, for the purpose of calculating Lifetime Energy Savings, is 1. The Market Transformation multipliers agreed to for the purpose of calculating Adjusted First Year Energy Savings are as outlined below.

MARKET TRANSFORMATION MULTIPLIERS USED IN GROSS TO ADJUSTED FIRST YEAR ENERGY SAVINGS CALCULATION		
Market Transformation Measures	Multiplier (Residential)	Multiplier (C&I)
Low-Income Furnaces	2	
Wi-Fi Thermostats	2	1.5
Space Heating Boilers		1.5
Process Boilers		1.5

	2017
Avoided Cost	\$21,785,618
Program Cost	\$5,985,060
Net Cost Reductions (1)	\$15,800,558
USRCT	3.64
Financial Incentive Cap (2)	\$897,759

(1) Net Cost Reductions = Avoided Costs - Program Costs

(2) Financial Incentive Cap = .15/(USRCT-1)* Net Cost Reductions for USRCT > 1.6; or = .25 * Net Cost Reductions for USRCT < 1.6

Performance Incentive for Qualitative Objectives		
Objective	% of Performance Incentive	2017 EO Plan Performance Incentive Award
Program alignment with Efficiency UNITED	10.00%	\$89,776
Multi-year Residential programming - Completed minimum of 170 JEEPs	10.00%	\$89,776
Achieve target low-income spend of \$378,721.	5.00%	\$44,888
Development and continuation of a strategic plan for C&I customers - Minimum of 40 ongoing C&I customer plans	5.00%	\$44,888
Gas utility and electric utility coordination with a minimum of 5 electric utilities	5.00%	\$44,888
Total	35.00%	\$314,216

Performance Incentive for Energy Savings Target			
Savings Target %	% of Performance Incentive	2017 EO Plan Lifetime Savings (Therms)	2017 EO Plan Performance Incentive
100.1%	25.00%	38,264,303	\$224,440
100.5%	26.38%	38,417,207	\$236,784
101.0%	27.75%	38,608,338	\$249,128
101.5%	29.13%	38,799,468	\$261,472
102.0%	30.50%	38,990,599	\$273,816
102.5%	31.88%	39,181,729	\$286,161
103.0%	33.25%	39,372,859	\$298,505
103.5%	34.63%	39,563,990	\$310,849
104.0%	36.00%	39,755,120	\$323,193
104.5%	37.38%	39,946,250	\$335,537
105.0%	38.75%	40,137,381	\$347,882
105.5%	40.13%	40,328,511	\$360,226
106.0%	41.50%	40,519,642	\$372,570
106.5%	42.88%	40,710,772	\$384,914
107.0%	44.25%	40,901,902	\$397,258
107.5%	45.63%	41,093,033	\$409,603
108.0%	47.00%	41,284,163	\$421,947
108.5%	48.38%	41,475,294	\$434,291
109.0%	49.75%	41,666,424	\$446,635
109.5%	51.13%	41,857,554	\$458,979
110.0%	52.50%	42,048,685	\$471,323
110.5%	53.88%	42,239,815	\$483,668
111.0%	55.25%	42,430,945	\$496,012
111.5%	56.63%	42,622,076	\$508,356
112.0%	58.00%	42,813,206	\$520,700
112.5%	59.38%	43,004,337	\$533,044
113.0%	60.75%	43,195,467	\$545,389
113.5%	62.13%	43,386,597	\$557,733
114.0%	63.50%	43,577,728	\$570,077
114.5%	64.88%	43,768,858	\$582,421
115.0%	66.25%	43,959,989	\$594,765
115.5%	67.63%	44,151,119	\$607,110
116.0%	69.00%	44,342,249	\$619,454
116.5%	70.38%	44,533,380	\$631,798
117.0%	71.75%	44,724,510	\$644,142
117.5%	73.13%	44,915,640	\$656,486
118.0%	74.50%	45,106,771	\$668,830
118.5%	75.88%	45,297,901	\$681,175
119.0%	77.25%	45,489,032	\$693,519
119.5%	78.63%	45,680,162	\$705,863
120.0%	80.00%	45,871,292	\$718,207